

The Macroeconomic Environment and Financial Stability



CENTRAL BANK OF
TRINIDAD & TOBAGO

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Key Points



1. Global economic prospects strengthened amid serious concerns about increasing protectionism and bumps ahead on the financial stability front.
2. Domestically, the energy sector is rebounding well, supported by buoyant international prices.
3. Activity in non-energy sectors continues to lag, although there are positive signs in retail trade and business financing.
4. The fiscal accounts improved from last year but financing anticipated deficits over the next few years will pose challenges.
5. While recent higher energy exports have helped, restoring durable balance in the forex market requires an appropriate combination of fiscal, structural and monetary policies.
6. Monetary policy has been neutral so far, given domestic and international factors, and the pendulum is swinging towards a rate increase.
7. Trinidad and Tobago's financial system remains very stable and the Central Bank is working on a number of fronts to deal with financial stability issues.

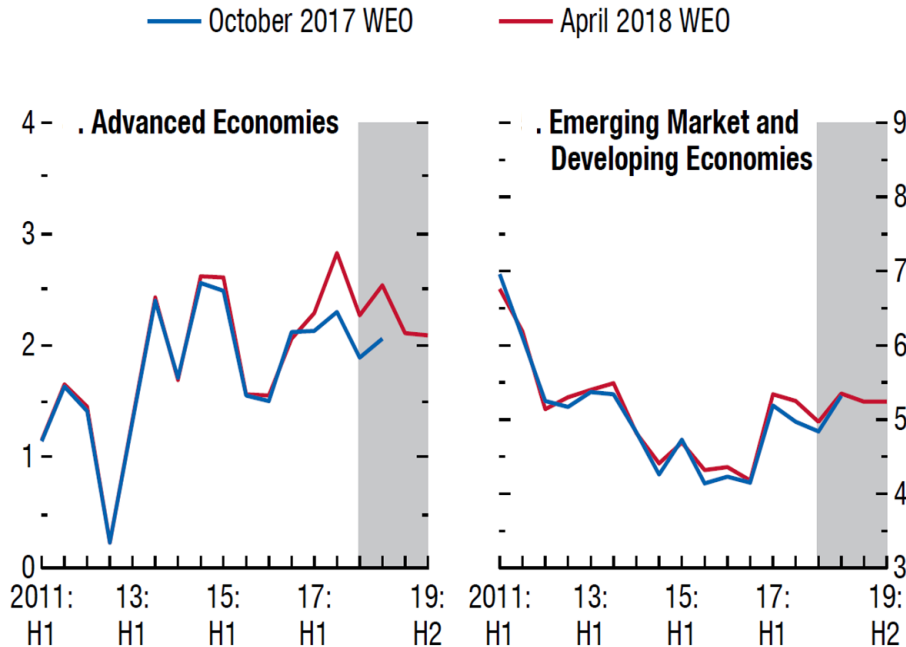


1. Global economic prospects strengthened amid serious concerns about increasing protectionism...



Chart 1: Global Economic Growth

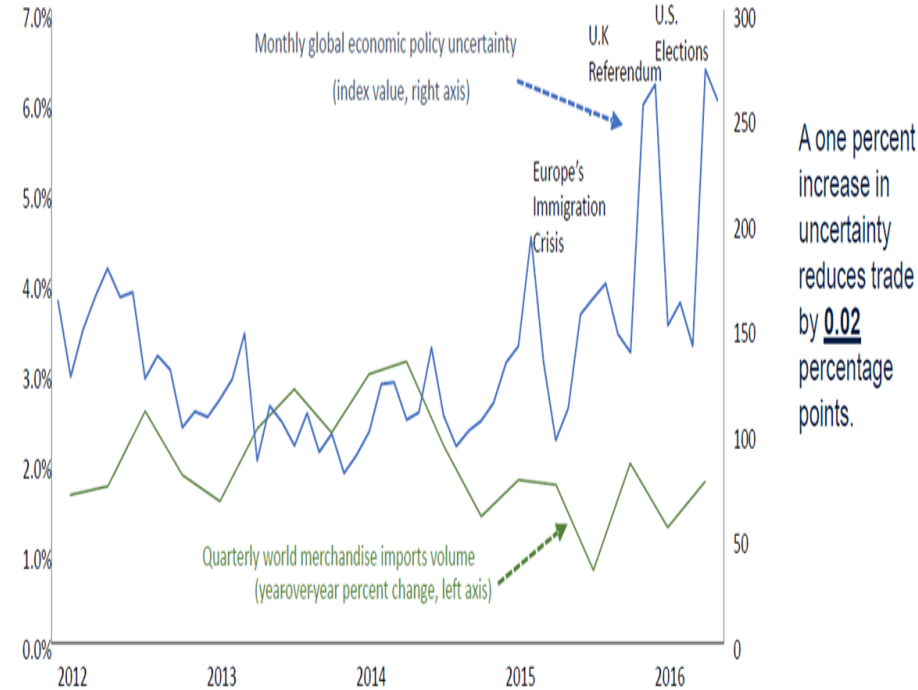
GDP Growth (Annualized semiannual percent change)



Source: International Monetary Fund

Chart 2: Global Trade

World import growth and policy uncertainty, from mid-2012 to 2016



A one percent increase in uncertainty reduces trade by 0.02 percentage points.

Source: World Bank

The IMF forecasts overall growth of 3.9%.

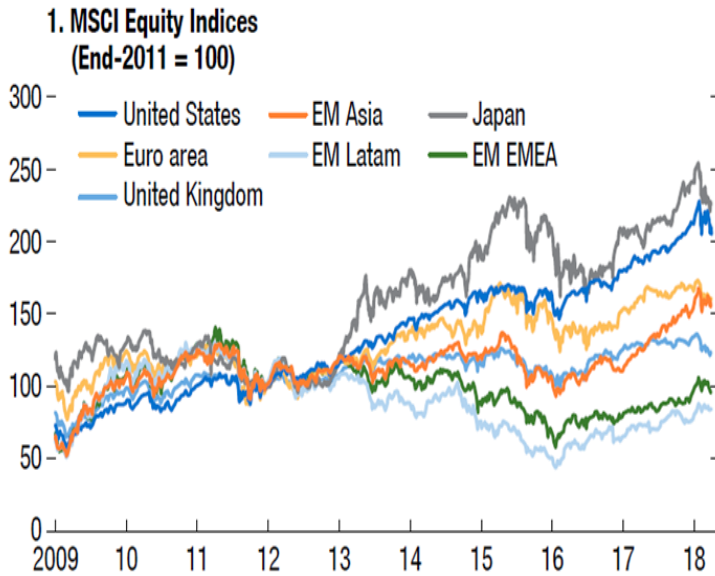
US/Chinese trade frictions threaten to set back global trade.



...and bumps ahead on the financial stability front.

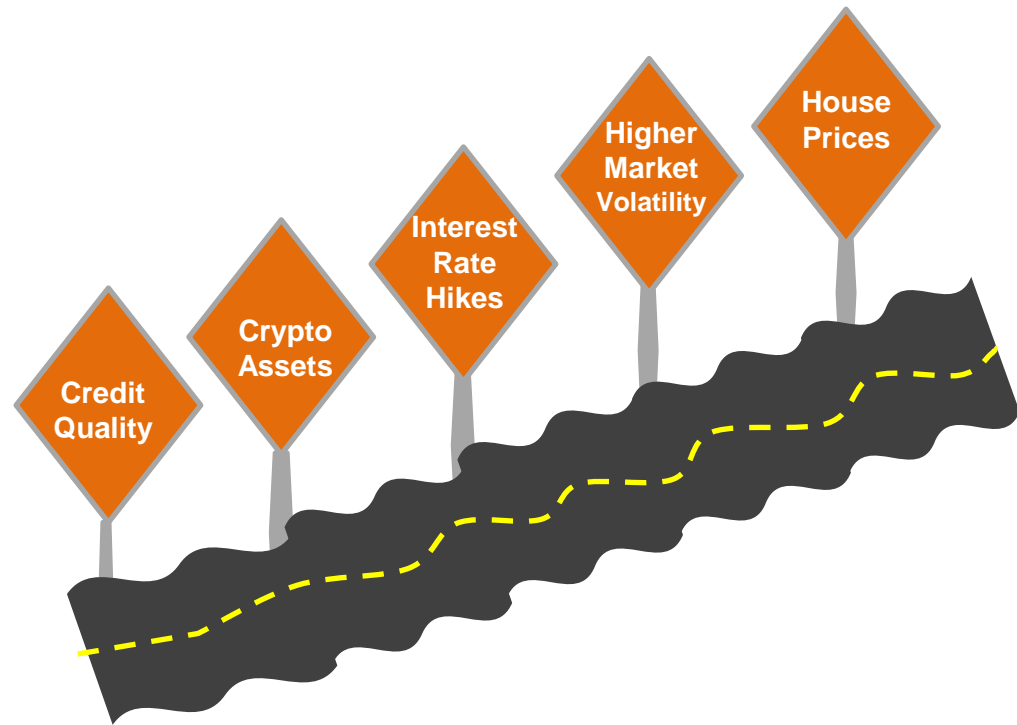
Chart 3: Global Equities

Global equities have extended their rally in recent months, on balance, since October ...



In the United States, valuations are high relative to their historical averages and pre-GFC peak, and to other countries.

Source: International Monetary Fund



Fintech and fragilities in some markets complicate the outlook.

International financial market volatility has decreased.



2.

Domestically, the energy sector is rebounding well...



Chart 4: Crude Oil Production

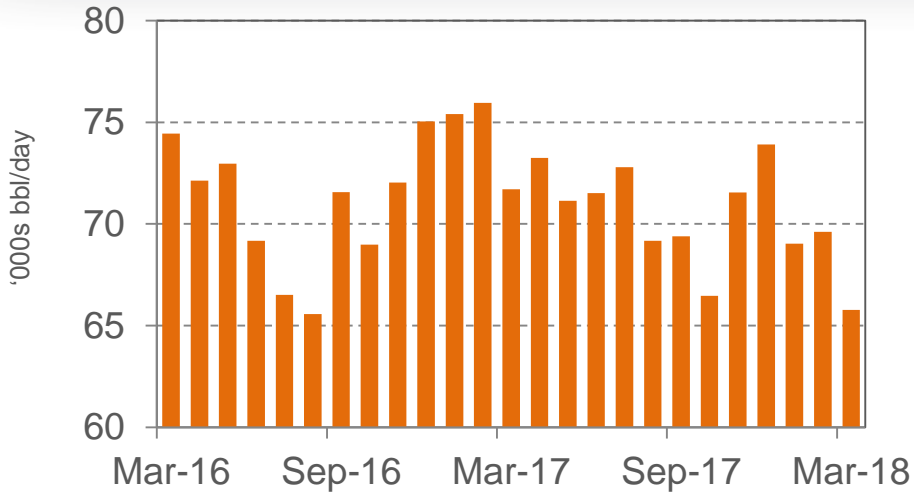
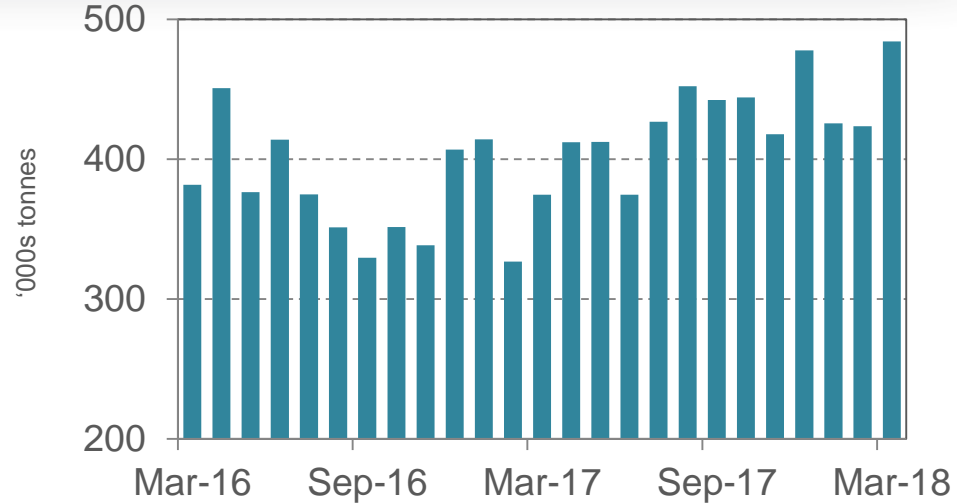


Chart 6: Methanol Production



Recovery in the energy sector led by natural gas...helped to alleviate problems in downstream production

Chart 5: Natural Gas Production

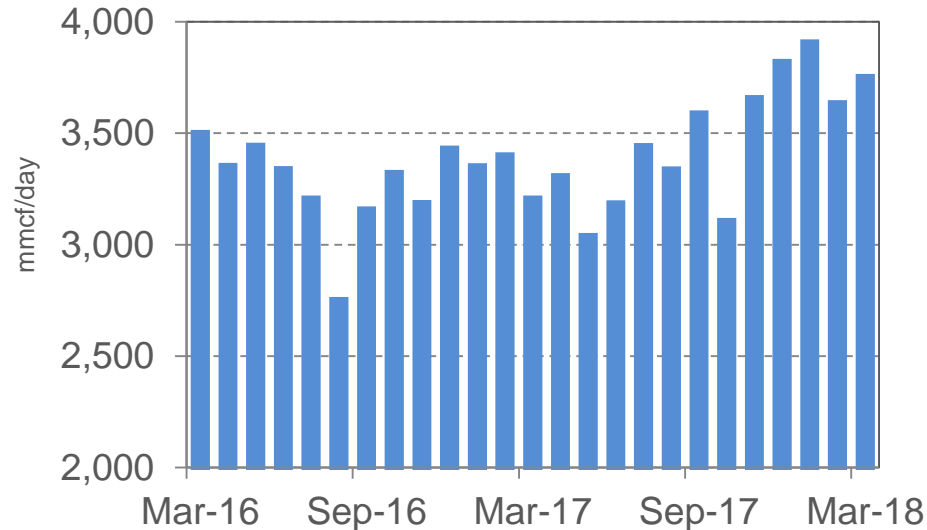
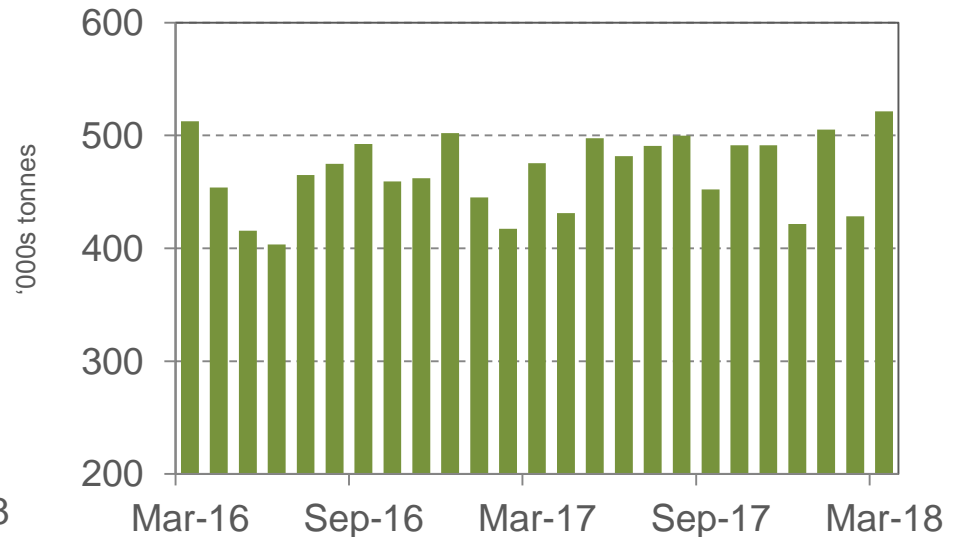


Chart 7: Fertilizer Production

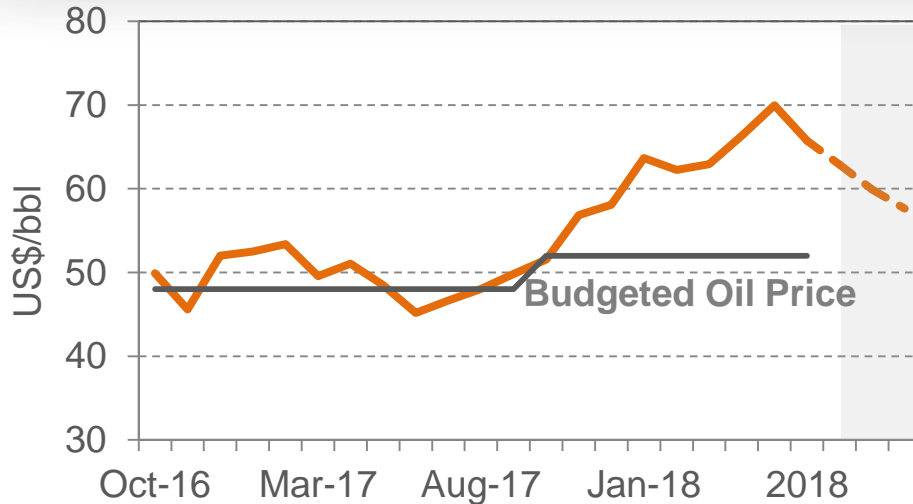




...supported by buoyant international prices.

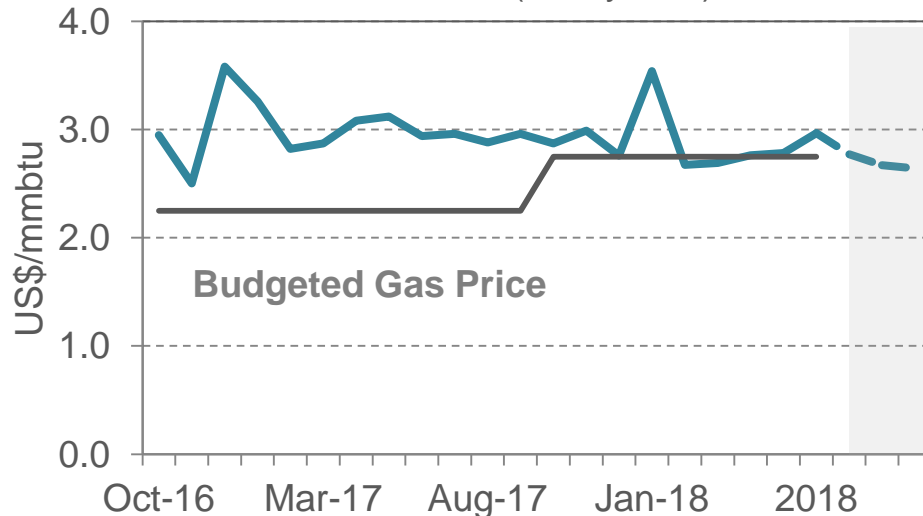


Chart 8: Crude Oil (WTI) Prices



- *Fortuitously, international energy prices have risen over the past year.*
- *Prices are above the budgeted level, particularly for oil (US\$52/bbl).*
- *Short-term forecasts continue to show a normalization around US\$60/bbl for oil and US\$2.5/mmbtu for gas.*
- *Over the longer term, issues of competition from shale, new energy sources and moves away from fossil fuels will affect prices.*

Chart 9: Natural Gas (Henry Hub) Prices



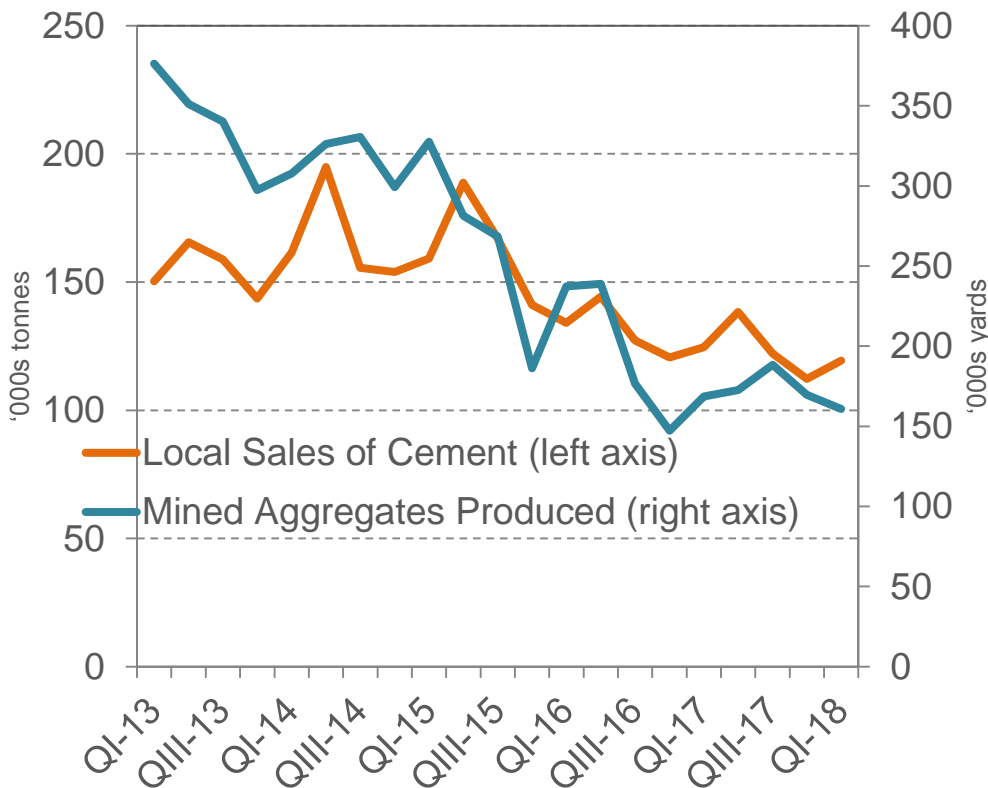
Sources: Bloomberg and Ministry of Finance



3. Activity in non-energy sectors continues to lag...



Chart 10: Local Sales of Cement and Mined Aggregates Produced



Source: Central Bank of Trinidad and Tobago

- **Little evidence to date of a solid recovery in sectors outside of energy e.g., most construction indicators reflect continued sluggishness:**
 - **Local sales of cement and mined aggregates fell in Q1-18;**
 - **Producer prices for cement and concrete declined while marginal increases in overall prices for building materials;**
 - **Highest unemployment rate in construction (11% in HI: 2017);**
 - **7.7% decline in lending to construction firms in Q1: 2018.**



...although there are positive signs in retail trade and business financing.



Chart 11: New Motor Vehicle Sales

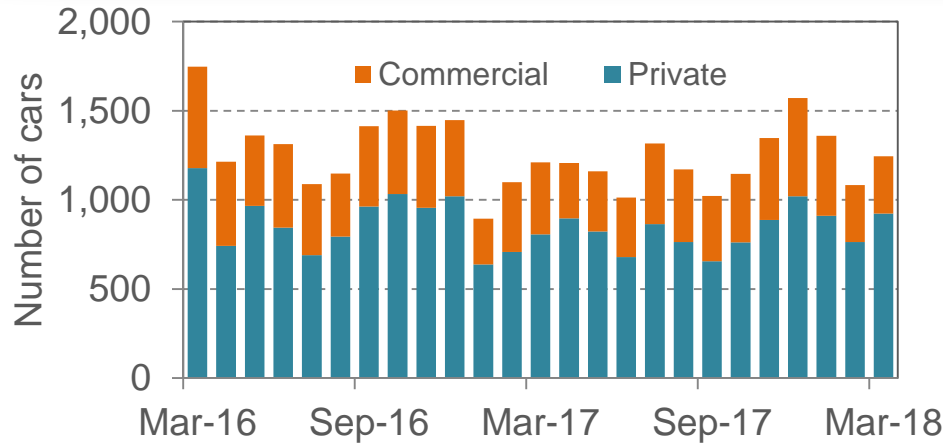
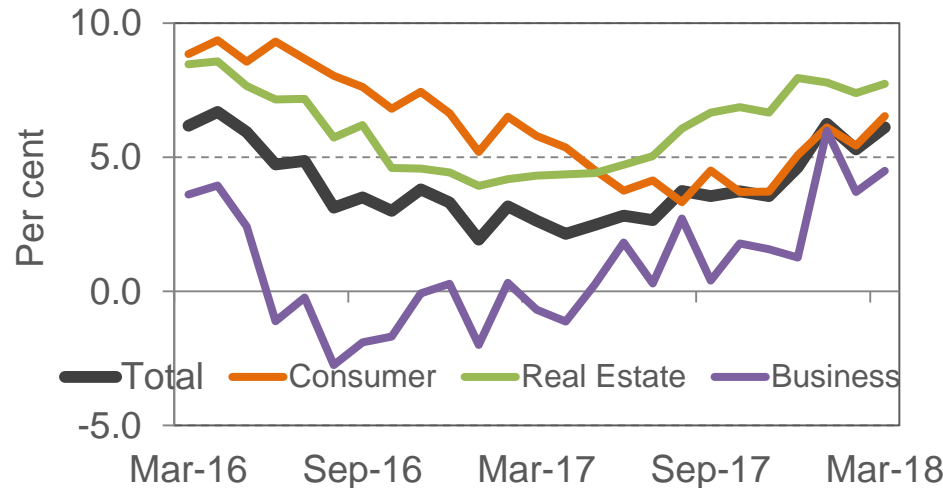


Chart 12: Private Sector Credit by the Financial System
Year-on-Year Per cent Change



- *Information on retail trade and new car sales suggests that the decline in distribution may be bottoming out.*
- *There are also some encouraging signs of a pickup in financial system credit to businesses as a whole.*
- *Continued growth in the energy sector is expected to spill over to non-energy activities in the rest of 2018.*
- *The pace of recovery will depend among other factors on the speed of execution of public capital projects as well as the responsiveness of the private sector.*



4. The fiscal accounts improved from last year...



A combination of higher revenue and lower current expenditure led to a lower deficit in the first 7 months of FY2017/18 relative to same period in FY2016/17.

- ↓ Goods and Services
- ↓ Transfers & Subsidies
- ↓ Salaries & Wages
- ↑ Capital Spending

- ↑ Energy Revenues
- ↑ Taxes on Goods & Services
- ↑ Non-Tax Revenues
- ↑ Taxes on Income & Profits

Expenditure
\$26.0 Bn

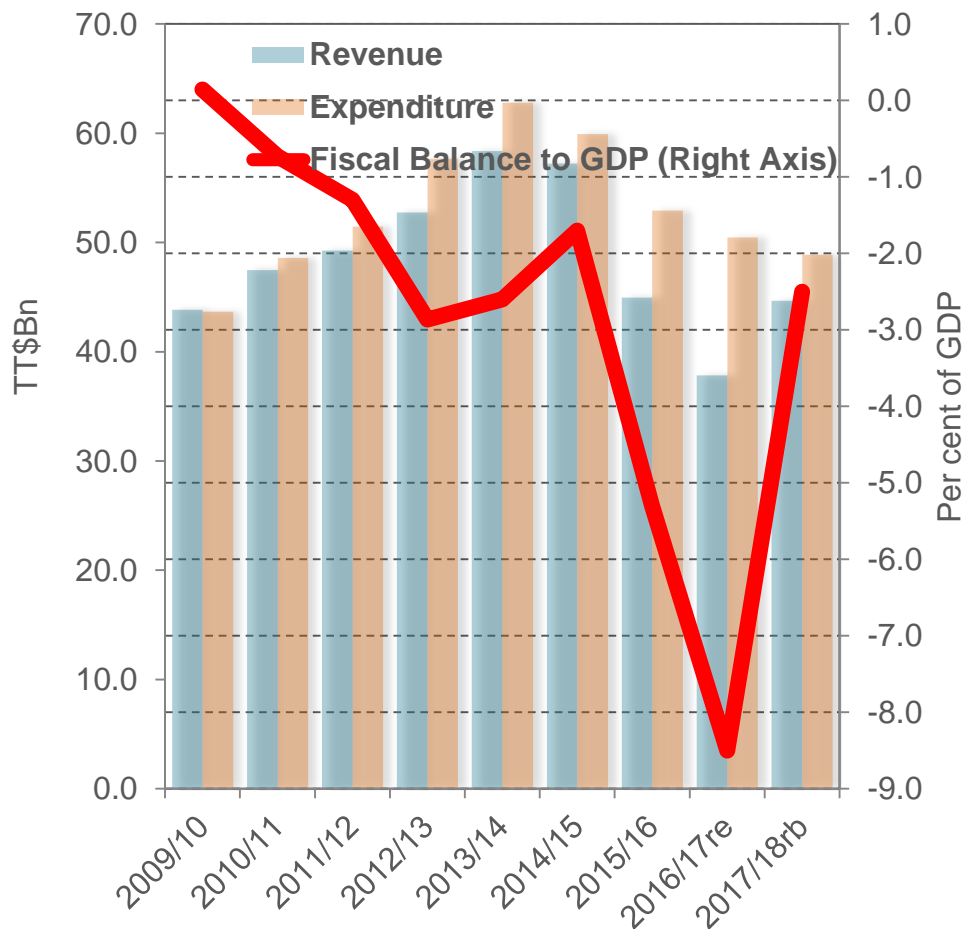
Revenue
\$23.1 Bn

\$2.9 Bn deficit for October 2017-April 2018

...but financing anticipated deficits over the next few years will pose challenges.



Chart 13: Central Government Finances



- **Nonetheless, fiscal deficits are expected to persist in the short-term.**
- **Four basic sources of financing the deficits need to be carefully balanced:**
 - **Asset sales can help but tend to be one-off;**
 - **External funding, except for grants, need to be repaid over time;**
 - **Central Bank financing has monetary and inflationary implications;**
 - **Domestic debt funding can lead to crowding out and rise in sovereign exposure of financial institutions.**
- **Continued fiscal consolidation towards a balanced budget is required to avoid debt buildup.**



5. While recent higher energy exports have helped, restoring durable balance in the forex market requires...



Chart 14: Authorised Dealers' Purchases and Sales of Foreign Currency

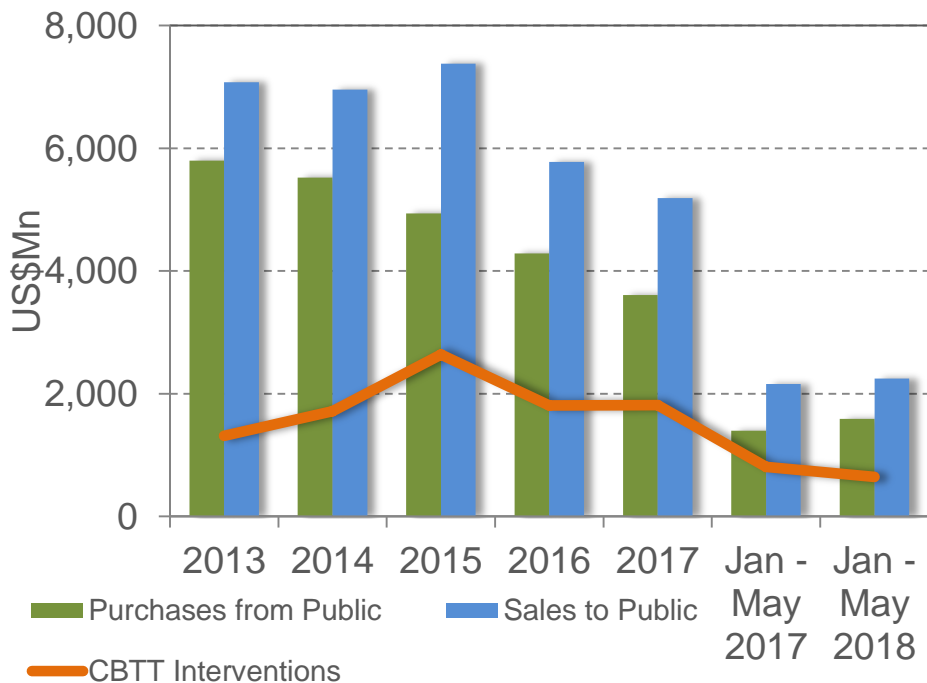
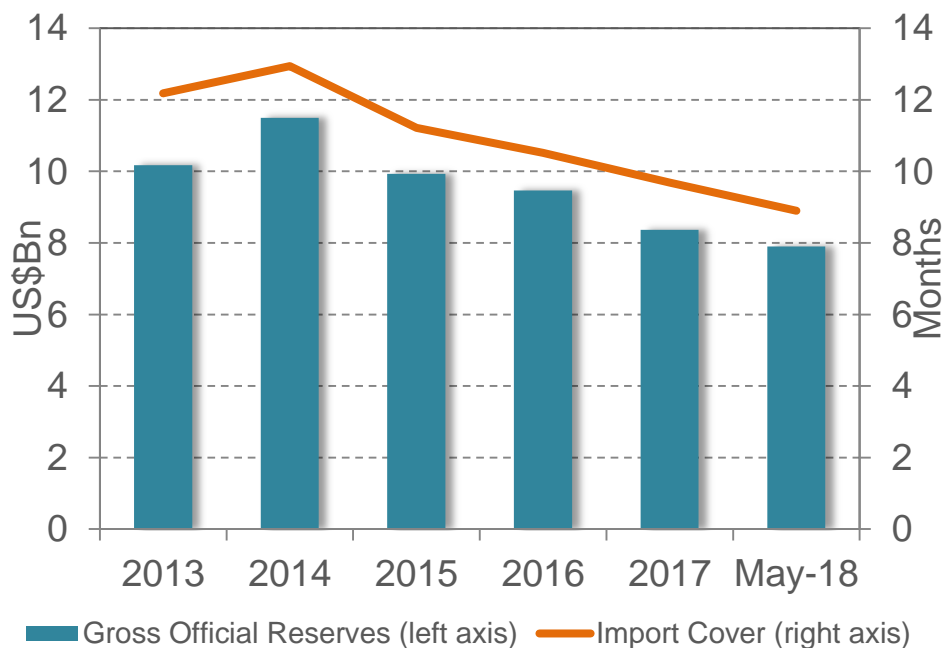


Chart 15: Gross Official Reserves and Import Cover

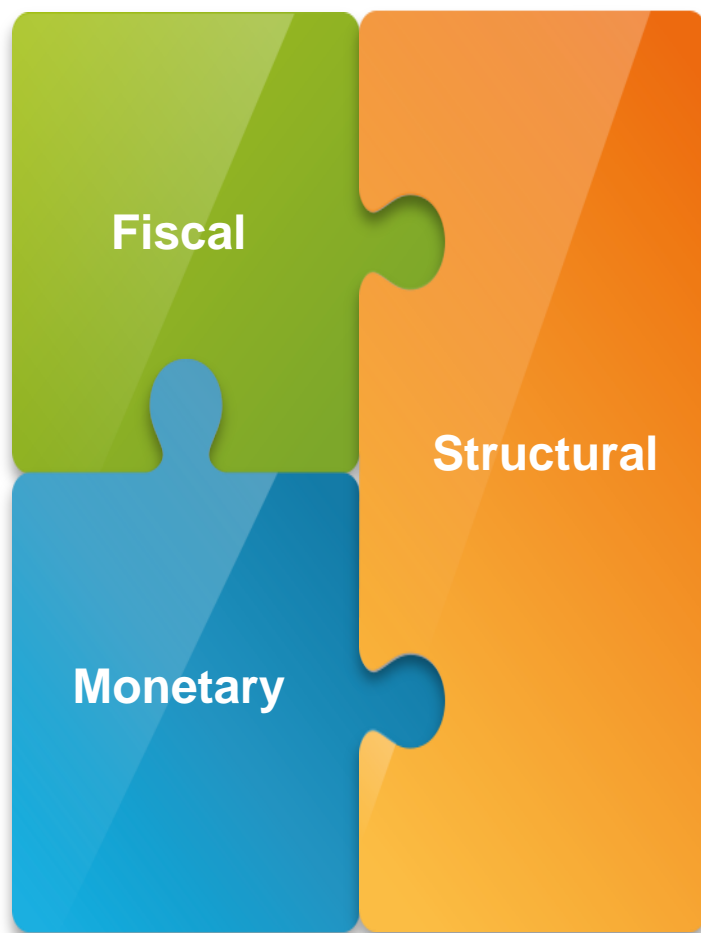


Source: Central Bank of Trinidad and Tobago

Buoyant energy prices led to some rise in forex inflows. International reserves have declined but remain substantial.



...an appropriate combination of fiscal, structural and monetary policies.



- *Despite the recent improvement in inflows, some imbalance in the forex market is likely to persist over the third quarter of 2018 as the economy continues to adjust.*
- *Restoring a durable equilibrium in the forex market depends on coordinated and appropriate fiscal, structural and monetary policies.*
- *Structural actions can go a long way and can include changes in:*
 - *Legislation;*
 - *Institutions;*
 - *Attitudes;*
 - *Technology;*
 - *Modernization of standards;*
 - *Strengthened accountability.*



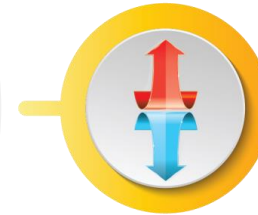
6. Monetary policy has been neutral so far, given domestic and international factors...



Inflation
0.8% in
Mar-18.



3mth TT-US
differential
-74bps in May-18



Repo rate maintained at
4.75%

Private sector
credit grew by
6.1% in Mar-18.



Energy sector grew by
9.3% in Q1-18.



Excess reserves
averaged **\$2.6bn** for
Jan-May-18.





...and the pendulum is swinging towards a rate increase.



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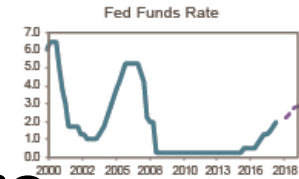
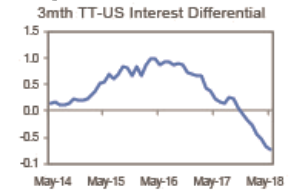
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DOMESTIC FACTORS



EXTERNAL FACTORS

$(r - r^*)$



r^*e



7. Trinidad and Tobago's financial system remains very stable...



Chart 17: Capital Adequacy

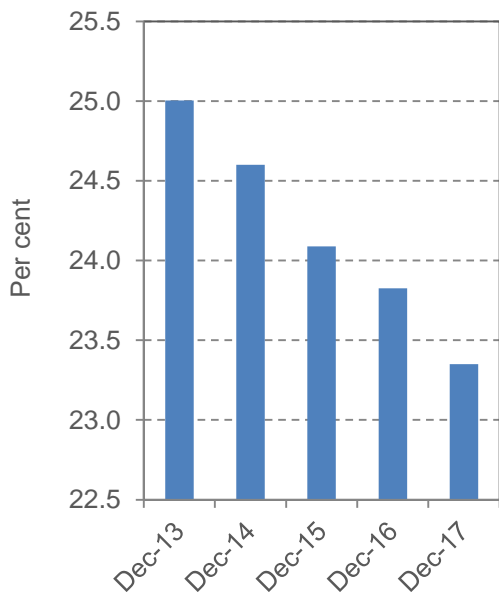


Chart 18: Banks Profitability

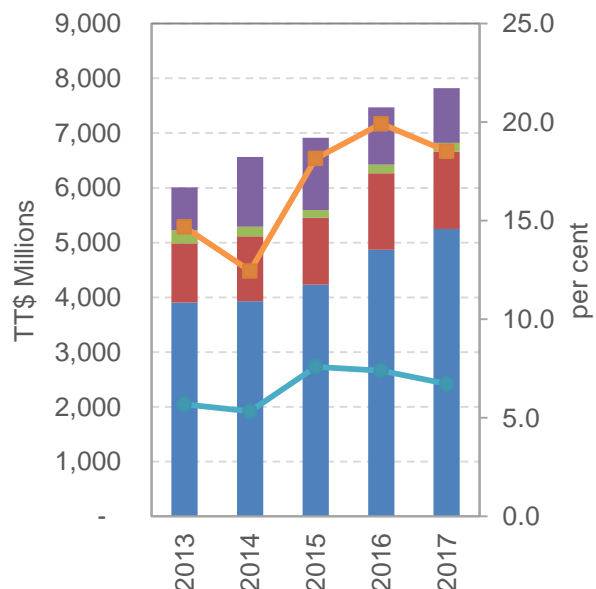
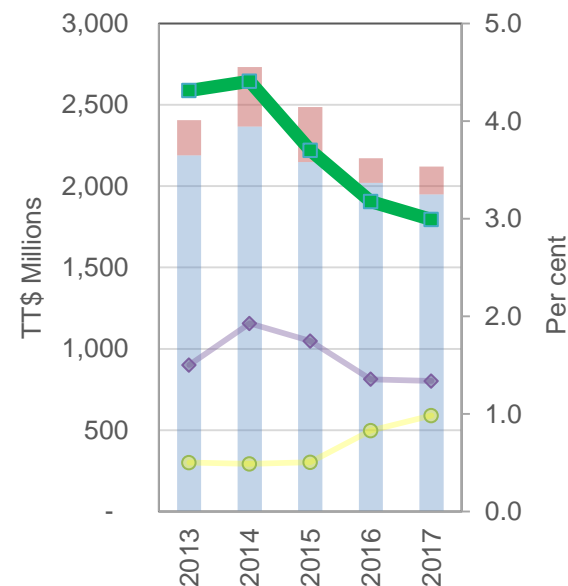


Chart 19: Non-Performing Loans



Financial soundness indicators show continued good health of banks in the current macroeconomic environment.

Source: Central Bank of Trinidad and Tobago



...and the Central Bank is working on a number of fronts to deal with financial stability issues.



Central Bank's Strategic Plan is taking into account new issues

(www.central-bank.org.tt)

Several activities planned in collaboration with international partners



Legislative Agenda



Crypto currencies



Cyber-security



Advancing Legislation



Improving Risk-based Supervision and Governance



Supervisory Co-ordination

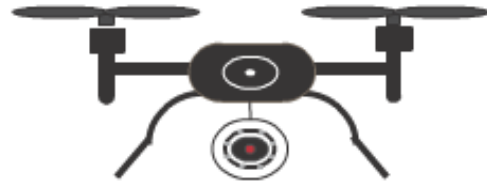


Strengthening Technical and Analytical Capabilities



Recent Developments in Payment Systems





Thank You